

**CITY OF WALTHAM, MASSACHUSETTS**

**MANAGEMENT LETTER**

**JUNE 30, 2017**



Management  
City of Waltham, Massachusetts

In planning and performing our audit of the financial statements of the City of Waltham, Massachusetts (City) as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of deficiencies in internal control (other than significant deficiencies and material weaknesses) that are opportunities to strengthen your internal control and improve the efficiency of your operations. We also want to make you aware of a recently issued accounting standard that will significantly impact your financial statements in future years. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated December 27, 2017, on the financial statements of the City.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and recommendations with City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

The City's written responses to the matters identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, the City Council, and others within the City, and is not intended to be, and should not be, used by anyone other than these specified parties.



**CliftonLarsonAllen LLP**

Boston, Massachusetts  
December 27, 2017

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## Comments and Recommendations

### Information Technology

#### Comment

We identified the following during our assessment of the City's information technology systems:

#### *External Vulnerability Assessment and Penetration Test*

There have been no Internal or External Vulnerability Assessment or Penetration Tests performed, which presents the risk of unauthorized access to the City's network, systems and data.

#### *Password Policy Network and Information Security*

The City's settings for required password criteria, minimum password age, password history, account lockout, and initial default password change settings do not meet leading practice guidelines.

#### Recommendation

We recommend management consider contracting a third party to perform an internal and external vulnerability assessment and penetration test to gain an outside perspective on the effectiveness of the security surrounding the IT environment.

We recommend management consider updating required password criteria and account lockout settings to leading/best practice guidelines.

#### Management's Response

The I.T. Department, much like other I.T departments, is aware of outside vulnerabilities and is in agreement with the auditor's interest and observation concerning the security of Personally Identifiable Information (PII) and Personal Health Information (PHI) for both employees and taxpayers. Those threats are ever changing and increasing in sophistication and complexity. We concur with the opinion(s) and continually seek methods, practices, and financial resources to mitigate the city's exposure. Most involved in the discussion and profession would agree the threats are measurably real and there are varying degrees to the span of efforts and resources available to effectively protect network data against such threats.

The items outlined in the audit report are key issues that are continually discussed and addressed in the I.T. Department efforts and financial planning. There are two distinct points presented within the audit's I.T. comments. First, is the need to consider contracting a "third party" to perform an internal and external vulnerability assessment and penetration test to gain an outside perspective on the effectiveness of security surrounding the city's network. The second area of concern is the recommendation to consider updating the required password criteria and account lockout settings to best practices guidelines.

There are many areas of concern to be considered when addressing network data protection and security. We continue to break down those areas into categories such as physical threats, unauthorized compromises, and inadvertent data corruption, outside attacks through email, internet activity, and deliberate attempts to penetrate and compromise our city's data. We are always struggling to find the proper balance. In fact, during the spring and summer months of 2017, we engaged in discussions and implemented formal plans and solutions to eliminate many of the common and obvious exposure to financial and personal data.

Throughout the fall of 2017, we collaborated and worked with experts in the area of network and application data protection to develop strategies that have proven effective in other network and application landscapes. Together with that vendor resource, we executed a plan that has undoubtedly increased the protection to our city data.

With respect to the thought of altering our current username and password criteria, we continually consider and seek the ideal level of responsibility. We have strived to provide a proper balance between reasonable password criteria and user ease. Our efforts have been directed towards data isolation and protection rather than the more traditional approaches to forcing benign and thoughtful user activity. However, we do see value in the recommendation and will consider the topic during our internal discussions and activities.

## **Police and Fire Detail**

### Comment

Consistent with prior years, the police and fire detail fund has a deficit fund balance totaling approximately \$94,000 (net of outstanding accounts receivable). When the police and fire detail fund is in deficit, it is typically an indication that one or more of the following events has occurred and gone undetected and/or unresolved:

1. Billing error
2. Accounts receivable were written off without a funding source (i.e., the general fund)
3. Revenue or expenditure posting errors

### Recommendation

We recommend the City determine the cause of the current deficit and take corrective action, which may only require an adjusting entry to reclassify incorrect postings of activity. However, corrective action may also require the deficit to be funded by available funds.

We recommend procedures be implemented to reconcile the police and fire detail fund balance deficit to the detailed accounts receivable balances monthly.

### Management's Response

The City will continue to have the Police and Fire Departments research the underlying cause of the deficit and consider the funding of the uncollectible portion of the deficit. The City will review the process/reasons for the abatement of the accounts receivable with the Police and Fire Departments. The City will continue to monitor its reconciliation procedures for the activity of this fund and continue to perform them on monthly basis to minimize/identify/correct posting errors.

## **Financial Policies and Procedures Manual**

### Comment

We believe that preparation of a formal policy and procedures manual would improve and standardize the City's financial policies and procedures. Inherent in any organization that operates without formalized written procedures are inconsistencies in everyday policies and procedures. The number of such inconsistencies can be minimized by the written codification of policies and procedures and insistence on adherence to them.

Such a manual should include policies and procedures relative to all financial functions and processes, including, but not limited to, the following:

- Cash receipts
- Cash disbursements
  - Payroll
  - Vendor
- Procurement
- Budget
- Grants administration
- Capital assets
- Month-end and year-end closing
- Month-end and year-end reporting

The manual should also clearly define the objectives, responsibilities, and authorizations for all employees/job positions.

The use of written policies, procedures, and job descriptions in conjunction with specific assignment of responsibilities would increase supervisory personnel's effectiveness. Such written documents would decrease the time spent on supervision of clerical personnel and in attempts to define job responsibilities on each occasion of employee turnover.

### Recommendation

We recommend management develop and implement a formal financial policies and procedures manual.

### Management's Response

During the latter months of FY2016, the City Auditor's Office completed a draft of formal financial policies. The draft policies were provided to Standard and Poor's as a positive credit factor exhibit during its rating review on the City's issuance of short term notes in June 2016 and long term bonds in June 2017. The City Auditor's Office expects to finalize the draft policies during FY2018.

The City Auditor's Office has initiated the preparation and will continue to refine its procedures manual through the compilation of written policies and steps for certain tasks, such as payroll processing, warrant processing, etc.

The City will continue to make other departments aware of the audit comment and encourage participation for the creation of a procedures manual for their department's functions.



## **Other Postemployment Benefits Accounting and Financial Reporting (Informational Only)**

### Comment

In June of 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, which establishes new financial reporting requirements for governments that provide other postemployment benefits (OPEB) to its employees and retirees.

The implementation of this Statement will represent a significant change in the accounting and reporting of OPEB expense and the related liability. The implementation of this Statement will:

- Require the net OPEB liability to be measured as the total OPEB liability, less the amount of the OPEB plan's fiduciary net position (if the OPEB plan meets the criteria of a GASB trust as defined in the standard)
- Require that projections of benefits payments incorporate the effects of projected salary changes and service credits, as well as projected automatic postemployment benefit changes
- Require the use of the "entry age" actuarial cost allocation method, with each period's service cost determined by a level percentage of pay (referred to as the attribution method)
- Expand OPEB related note disclosures
- Expand OPEB related required supplementary information disclosures

Given the significance of the net OPEB liability, the financial reporting impact under the new standard will significantly affect the Town's financial statements.

It should be noted that the implementation of GASB Statement No. 75 is strictly financial reporting standards and do not constitute a state or federal mandate regarding the funding of the net OPEB obligation.

The Town's required implementation date is fiscal year 2018.

### Recommendation

We recommend management familiarize itself with GASB Statement No. 75 and prepare for its implementation.

### Management's Response

The City will continue to familiarize itself with GASB No. 74 and No. 75 by reading the specific GASB, reading relevant articles and/or attending workshops on its implementation.

The City recognizes the significance of the OPEB liability and has established an OPEB Trust Fund with a balance of \$11 million as of June 30, 2017. In addition to an annual budget appropriation of \$200,000 to the OPEB Trust Fund, the City is one of only a handful of Massachusetts communities to have successfully negotiated an OPEB contribution from its union and non-union employees.